

Hughes County Rural Water District No. 2
Stuart, Oklahoma

Financial Statements and Auditor's Reports

Year Ended June 30, 2019

Audited by

BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

BROKEN ARROW, OK

Hughes County Rural Water District No. 2
Stuart, Oklahoma
Board of Directors
June 30, 2019

BOARD OF DIRECTORS

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Hughes County Rural Water District No. 2
Stuart, Oklahoma
June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hughes County Rural Water District No. 2
Stuart, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Hughes County Rural Water District No. 2, Stuart, Oklahoma (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2019, and the respective changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The prior year “memorandum only” comparative information is presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2022 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 27, 2022



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Hughes County Rural Water District No. 2
Stuart, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Hughes County Rural Water District No. 2, Stuart, Oklahoma (the District), as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 27, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we identified one deficiency in internal control that we consider to be a material weakness. This finding is identified as item 19-1 in the accompanying Schedule of Findings and Responses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 27, 2022

HUGHES COUNTY RURAL DISTRICT NO. 2
Disposition of Prior Year Audit Findings
June 30, 2019

- 18-1 *Finding* – Presently, the same individual performs all accounting functions; receives utility service-related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks, reconciles the monthly bank statements and prepares monthly financial reports. This is considered a lack of segregation of duties.

Recommendation – While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Disposition – This continues to be a finding.

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Schedule of Findings and Responses
June 30, 2019

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit identified a material weakness, item 19-1, in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

19-1 – Lack of Segregation of Duties

Condition - The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria - An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause - The District is not large enough to justify the hiring of additional personnel.

Effect - There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation - The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response - Additional personnel will be hired when the actual funds are available.

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Statement of Net Position
June 30, 2019

	2019	-Memorandum- -Only- 2018
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 229,037	\$ 175,886
Accounts receivable	45,907	32,907
Prepaid insurance	15,170	15,258
Total current assets	<u>290,114</u>	<u>224,051</u>
Fixed Assets:		
Land	148,357	148,357
Water system and improvements	6,025,133	6,001,191
Equipment	72,317	65,214
Vehicles	85,766	85,766
Total fixed assets	<u>6,331,573</u>	<u>6,300,528</u>
Less: accumulated depreciation	<u>(2,383,002)</u>	<u>(2,236,594)</u>
Total fixed assets (net)	<u>3,948,571</u>	<u>4,063,934</u>
Other Assets:		
Restricted cash	59,988	59,988
Refundable customers deposits	9,611	10,716
Total other assets	<u>69,599</u>	<u>70,704</u>
TOTAL ASSETS	<u>\$ 4,308,284</u>	<u>\$ 4,358,689</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 3,876	\$ 4,094
Refundable deposits	30,726	30,726
Current maturities of long-term debt	73,283	68,261
Total current liabilities	<u>107,885</u>	<u>103,081</u>
Long-term debt:		
Notes payable and capital leases	<u>1,210,764</u>	<u>1,284,047</u>
Total Liabilities	<u>1,318,649</u>	<u>1,387,128</u>
<u>NET POSITION</u>		
Net investment in capital assets	2,664,524	2,711,626
Temporarily restricted assets	59,988	59,988
Unrestricted assets	<u>265,123</u>	<u>199,947</u>
Total Net Position	<u>2,989,635</u>	<u>2,971,561</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,308,284</u>	<u>\$ 4,358,689</u>

The accompanying notes to the financial statements are an integral part of this statement

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended June 30, 2019

	<u>2019</u>	<u>-Memorandum- -Only- 2018</u>
Operating Revenues:		
Water sales	\$ 456,849	\$ 420,179
Operating Expenses:		
Water purchases	39,485	28,950
Operating supplies and materials	19,523	42,149
Salaries and taxes	77,362	80,167
Repairs and maintenance	44,947	92,176
Licences & dues	679	5,324
Insurance	19,323	18,034
Professional fees	2,420	6,850
Vehicle expenses	7,738	10,789
Office expense	6,534	9,642
Postage	2,420	2,468
Telephone	6,222	4,679
Utilities	21,918	20,042
Water testing	1,080	2,640
Miscellaneous	1,918	299
Depreciation	146,408	145,458
Total expenses from operations	<u>397,977</u>	<u>469,667</u>
Operating Income (Loss)	58,872	(49,488)
Non-Operating Revenues (Expenses):		
Interest income	129	103
Interest expense on debt	(40,927)	(38,376)
Total non-operating revenues (expenses)	<u>(40,798)</u>	<u>(38,273)</u>
Change in Net Position	18,074	(87,761)
Total Net Postion, beginning of period	<u>2,971,561</u>	<u>3,059,322</u>
Total Net Position, end of period	<u>\$ 2,989,635</u>	<u>\$ 2,971,561</u>

The accompanying notes to the financial statements are an integral part of this statement

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Statement of Cash Flows
For Year Ended June 30, 2019

	<u>2019</u>	<u>-Memorandum- -Only- 2018</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 456,849	\$ 422,497
Payments to employees	(77,362)	(80,167)
Payments to vendors	(187,338)	(244,370)
Net Cash Provided by Operating Activities	<u>192,149</u>	<u>97,960</u>
Cash Flows from Financial Activities:		
Fixed assets added	(31,045)	(148,552)
Lease/loan proceeds	0	112,536
Principal paid on debt	(68,260)	(49,751)
Interest paid on debt	(40,927)	(38,376)
Net cash provided by (used in) financial activities	<u>(140,232)</u>	<u>(124,143)</u>
Cash Flows from Investing Activities:		
Meter deposits collected/returned	0	(1,875)
Interest revenue	129	103
Net cash provided by (used in) investing activities	<u>129</u>	<u>(1,772)</u>
Net Increase (Decrease) in Cash and Equivalents	52,046	(27,955)
Cash and cash equivalents, beginning of period	<u>246,590</u>	<u>274,545</u>
Cash and cash equivalents, end of period	<u>\$ 298,636</u>	<u>\$ 246,590</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income (loss)	\$ 58,872	\$ (49,488)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	146,408	145,458
(Increase) decrease in accounts receivable	(13,000)	2,318
(Increase) decrease in prepaid expenses	88	(446)
Increase (decrease) in accounts payable	(219)	118
Net Cash Provided by Operating Activities	<u>\$ 192,149</u>	<u>\$ 97,960</u>

The accompanying notes to the financial statements are an integral part of this statement

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Notes to Financial Statements
June 30, 2019

Note A – Significant Accounting Policies

Organization

Hughes County Rural Water District No. 2, Stuart, Oklahoma (the District) is recognized as a Rural Water District under Oklahoma Statutes, Title 82. The purpose of the organization is to provide potable water to residential and commercial customers who are members of the District.

Reporting Entity

The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost of providing water services is financed through user charges. The District produces its own water supply and buys some water from well owners.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts are with The Bank NA, McAlester, Oklahoma, and are detailed as follows:

	June 30,	
	2019	2018
Operation and Maint. Account	\$ 140,552	87,401
System Updates & Emerg Acct	88,485	88,485
Deposit Account	9,611	10,716
Total	<u>\$ 238,648</u>	<u>186,602</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Notes to Financial Statements
June 30, 2019

Note A – Significant Accounting Policies – cont'd

Investments

The District had no outstanding investments.

Custodial Credit Risk - At June 30, 2019 the District held deposits of approximately \$298,636 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Fair Value of Financial Instruments – The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair values because of the short maturity of these instruments.

Accounts Receivable

Billings for accounts receivable at June 30, 2019 were \$45,907. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the financial statements.

Federal Income Tax

The District is exempt from Federal and State income taxes.

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Notes to Financial Statements
June 30, 2019

Note A – Significant Accounting Policies – cont'd

Accumulated Unpaid Vacation and Sick Pay

At June 30, 2019, no determination of the aggregate dollar value of vacation or sick pay had been made.

Memorandum Totals

The “Memorandum Only” captions above the columns mean that amounts are presented for comparative and information purposes only.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions of enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Note B – Capital Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a capital asset by the District, and will be depreciated over a specific time. The capital asset information for the District is shown below:

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Notes to Financial Statements
June 30, 2019

Note B – Capital Assets – cont'd

	7/1/2018 Amount	Additions	Deletions	6/30/2019 Amount
Land	\$ 148,357	-	-	148,357
Water system	6,001,191	23,942	-	6,025,133
Equipment	65,214	7,103	-	72,317
Vehicles	85,766	-	-	85,766
Total Capital Assets	6,300,528	31,045	-	6,331,573
Less: Accumulated Depreciation	(2,236,594)	(146,408)	-	(2,383,002)
Total	<u>\$ 4,063,934</u>	<u>(115,363)</u>	<u>-</u>	<u>3,948,571</u>

Note C – Long-Term Debt

Long-Term Debt consists of the following notes:

	June 30,	
	2019	2018
Rural Development note payable, issued for \$280,200, dated 1995, 4.5% interest, paid in monthly payments of \$1,273, until paid;	\$ 172,536	179,868
Rural Development note payable, issued for \$210,000, dated 1995, 4.5% interest, paid in monthly payments of \$954, until paid;	129,342	134,835
Rural Development note payable, issued for \$840,000, dated 2011, 2.5% interest, paid in monthly payments of \$2,772, until paid;	733,068	747,805
ORD Finance Co (ORDFC) note payable, issued for \$202,436, dated 2017, interest rate of 4.50%, payable in monthly payments of \$2,814, until paid;	150,935	177,264
Government Capital Corp lease-purchase for radio-read meters, issued for \$112,536, dated 2018, interest rate of 3.812%, due in annual payments of \$18,612 until paid;	98,166	112,536
Total Long-Term Debt	<u>\$ 1,284,047</u>	<u>1,352,308</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Notes to Financial Statements
June 30, 2019

Note C – Long-Term Debt – cont'd

The scheduled maturities for the next five years, and in five-year totals thereafter, are detailed as follows:

<u>Year</u>	<u>Total</u>	<u>Rural Dev. (3)</u>	<u>ORDFC</u>	<u>Gov Cap.</u>
2019-20	\$ 73,283	28,524	29,889	14,870
2020-21	71,410	29,522	26,452	15,436
2021-22	76,710	30,559	30,126	16,025
2022-23	79,780	31,634	31,510	16,636
2023-24	82,979	32,751	32,958	17,270
2024-29	200,000	182,071	-	17,929
2029-34	217,219	217,219	-	-
2034-39	136,693	136,693	-	-
2039-44	130,951	130,951	-	-
2044+	215,022	215,022	-	-
Total	<u>\$ 1,284,047</u>	<u>1,034,946</u>	<u>150,935</u>	<u>98,166</u>

Reserve Account

According to the loan agreements with Rural Development, the District is required to make monthly deposits of \$227 to a designated account known as a reserve account. A total balance of \$59,988 is to be accumulated in the reserve account, which represents a balance equal to one year's payments on each loan. The District maintains a savings account at The Bank, NA as a reserve account. At June 30, 2019, the Reserve account had a balance of \$59,988.

Note D – Insurance and Surety Bond Coverage

At June 30, 2019 the District had appropriate coverage against all major perils.

Note E – Subsequent Events

Management has evaluated subsequent events through December 27, 2022, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.